

Ringgold County Hospital

Accountants' Report and Financial Statements

June 30, 2005 and 2004

Ringgold County Hospital

June 30, 2005 and 2004

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the accompanying balance sheets of Ringgold County Hospital as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ringgold County Hospital as of June 30, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 1, 2005

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Ringgold County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2005 and 2004

Introduction

This management's discussion and analysis of the financial performance of Ringgold County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2005 and 2004. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments decreased in 2005 and 2004 by \$400,571 and \$475,404, or 31% and 27%, respectively.
- The Hospital's net assets decreased in each of the past two years with a \$762,720, or 17 % decrease in 2005 and a \$253,494, or 5% decrease in 2004.
- The Hospital reported operating losses in both 2005 (\$1,428,197) and 2004 (\$920,607). The operating loss in 2005 increased by \$507,590, or 55% over the operating loss reported in 2004. The operating loss in 2004 increased by \$582,651, or 172% over the operating loss reported in 2003.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by \$762,720 (17%) in 2005 over 2004 and by \$253,494 (5%) in 2004 over 2003 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2005	2004
Assets		
Patient accounts receivable, net	\$ 1,124,657	\$ 1,426,424
Other current assets	1,120,013	1,243,860
Capital assets, net	3,185,375	3,257,522
Other noncurrent assets	<u>580,321</u>	<u>910,311</u>
Total assets	<u>\$ 6,010,366</u>	<u>\$ 6,838,117</u>
Liabilities		
Long-term debt	\$ 602,849	\$ 750,458
Other current and noncurrent liabilities	<u>1,678,448</u>	<u>1,595,870</u>
Total liabilities	<u>2,281,297</u>	<u>2,346,328</u>
Net Assets		
Invested in capital assets, net of related debt	2,432,971	2,364,464
Unrestricted	<u>1,296,098</u>	<u>2,127,325</u>
Total net assets	<u>3,729,069</u>	<u>4,491,789</u>
Total liabilities and net assets	<u>\$ 6,010,366</u>	<u>\$ 6,838,117</u>

A significant element of the Hospital's assets is patient accounts receivable. As net patient service revenue decreased in 2005 by \$807,896 (9.9%) as compared to 2004, net patient accounts receivable decreased by \$301,767 (21.2%), or 15.0 days of revenue, at June 30, 2005, versus June 30, 2004. Accounts receivable increased by \$102,672 (7%), or 4.6 days of revenue, at June 30, 2004 over 2003.

Operating Results and Changes in the Hospital's Net Assets

In 2005, the Hospital's net assets decreased by \$762,720 or 17%, as shown in Table 2. This decrease is made up of several different components and represents an increase of \$509,226 compared with the decrease in net assets for 2004 of \$253,494.

Table 2: Operating Results and Changes in Net Assets

	2005	2004
Operating Revenues		
Net patient service revenue	\$ 7,361,247	\$ 8,169,143
Other operating revenues	<u>81,332</u>	<u>99,927</u>
Total operating revenues	<u>7,442,579</u>	<u>8,269,070</u>
Operating Expenses		
Nursing services	1,204,111	1,234,935
Other professional services	4,971,464	5,162,852
General services	669,537	643,526
Administrative and fiscal services	1,685,286	1,824,499
Depreciation	<u>340,378</u>	<u>323,865</u>
Total operating expenses	<u>8,870,776</u>	<u>9,189,677</u>
Operating Loss	<u>(1,428,197)</u>	<u>(920,607)</u>
Nonoperating Revenues (Expenses)		
County taxes	664,915	662,835
Investment income	14,599	21,550
Interest expense	(42,354)	(49,107)
Noncapital gifts	3,486	3,849
Rental income	<u>24,831</u>	<u>27,986</u>
Total nonoperating revenues (expenses)	<u>665,477</u>	<u>667,113</u>
Decrease in Net Assets	<u>\$ (762,720)</u>	<u>\$ (253,494)</u>

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Ringgold County and the surrounding area. The Hospital levies county taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2005 increased by \$507,590, or 55%, as compared to 2004. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$807,896, or 9.9%.
- A decrease in salaries and wages for the Hospital's employees of \$153,096, or 3.5%.

Net patient service revenue decreased, in part, because of a decline in patient days of 515 (20%) from 2004 to 2005. This decline resulted from a combination of factors, including the Hospital's surgeon was on a leave of absence for a significant portion of 2005. Other factors include commercial insurance carriers continuing to expect larger and larger discounts on services provided under preferred provider contracts, and the shortfalls caused by inadequate payments from the Medicare program for both outpatient and swing bed services.

The operating loss for 2004 increased by \$582,651, or 172%, as compared to 2003. Employee salaries and wages and benefits increased in 2004 by \$317,841, or 8%, in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county taxes and investment income and interest expense, all of which remained relatively constant in 2005 as compared to 2004. Despite having funds invested in certificates of deposit, the Hospital's investment return is insignificant due to low interest rates. Also, the investment options of the Hospital are severely limited due to the governmental status of the Hospital which prevents the Hospital from investing in alternative arrangements with more favorable returns.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the Hospital had \$3,185,375 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2005, the Hospital purchased new capital assets costing \$271,296. During 2004, \$355,320 was spent to acquire new capital assets.

Debt

At June 30, 2005 and 2004, the Hospital had \$752,404 and \$893,058, respectively, in long-term debt outstanding. The Hospital issued no new debt in 2005.

Other Economic Factors

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger and larger percentage of Medicare and Medicaid patients, thus increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 641 464-3226.

Ringgold County Hospital

Balance Sheets

June 30, 2005 and 2004

Assets

	<u>2005</u>	<u>2004</u>
Current Assets		
Cash	\$ 316,607	\$ 387,178
Patient accounts receivable, net of allowance; 2005 - \$338,101, 2004 - \$423,429	1,124,657	1,426,424
County taxes receivable	650,499	638,081
Estimated amounts due from third-party payers	—	42,057
Other receivables	9,601	1,509
Supplies	124,114	138,099
Prepaid expenses	<u>19,192</u>	<u>36,936</u>
Total current assets	<u>2,244,670</u>	<u>2,670,284</u>
Noncurrent Investments		
Internally designated	<u>570,000</u>	<u>900,000</u>
Capital Assets, Net	<u>3,185,375</u>	<u>3,257,522</u>
Other Assets		
Assets managed by the South Central Iowa Community Foundation	<u>10,321</u>	<u>10,311</u>
Total assets	<u>\$ 6,010,366</u>	<u>\$ 6,838,117</u>

Liabilities and Net Assets

	2005	2004
Current Liabilities		
Current maturities of long-term debt	\$ 149,555	\$ 142,600
Accounts payable	119,127	165,036
Accrued salaries and payroll taxes	287,135	244,142
Estimated self-insurance costs	40,000	40,000
Accrued compensated absences	396,720	374,592
Estimated amounts due to third-party payers	50,000	—
Deferred revenue for county taxes	<u>635,911</u>	<u>629,500</u>
Total current liabilities	1,678,448	1,595,870
Long-term Debt	<u>602,849</u>	<u>750,458</u>
Total liabilities	<u>2,281,297</u>	<u>2,346,328</u>
Net Assets		
Invested in capital assets, net of related debt	2,432,971	2,364,464
Unrestricted	<u>1,296,098</u>	<u>2,127,325</u>
Total net assets	<u>3,729,069</u>	<u>4,491,789</u>
Total liabilities and net assets	\$ <u>6,010,366</u>	\$ <u>6,838,117</u>

Ringgold County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Net patient service revenue, net of 2005 and 2004 provisions for uncollectible accounts of \$148,880 and \$288,756, respectively	\$ 7,361,247	\$ 8,169,143
Other	<u>81,332</u>	<u>99,927</u>
Total operating revenues	<u>7,442,579</u>	<u>8,269,070</u>
Operating Expenses		
Nursing services	1,204,111	1,234,935
Other professional services	4,971,464	5,162,852
General services	669,537	643,526
Administrative and fiscal services	1,685,286	1,824,499
Depreciation	<u>340,378</u>	<u>323,865</u>
Total operating expenses	<u>8,870,776</u>	<u>9,189,677</u>
Operating Loss	<u>(1,428,197)</u>	<u>(920,607)</u>
Nonoperating Revenues (Expenses)		
County taxes	664,915	662,835
Investment income	14,599	21,550
Interest expense	(42,354)	(49,107)
Noncapital gifts	3,486	3,849
Rental income	<u>24,831</u>	<u>27,986</u>
Total nonoperating revenues (expenses)	<u>665,477</u>	<u>667,113</u>
Decrease in Net Assets	(762,720)	(253,494)
Net Assets, Beginning of Year	<u>4,491,789</u>	<u>4,745,283</u>
Net Assets, End of Year	<u>\$ 3,729,069</u>	<u>\$ 4,491,789</u>

Ringgold County Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,755,071	\$ 8,024,414
Payments to suppliers and contractors	(4,384,908)	(4,537,797)
Payments to employees	(4,102,192)	(4,238,240)
Other receipts (payments), net	<u>84,397</u>	<u>95,172</u>
Net cash used in operating activities	<u>(647,632)</u>	<u>(656,451)</u>
Noncapital Financing Activities		
County taxes supporting operations	658,908	668,919
Noncapital gifts	<u>3,486</u>	<u>1,704</u>
Net cash provided by noncapital financing activities	<u>662,394</u>	<u>670,623</u>
Capital and Related Financing Activities		
Rental income	24,831	27,986
Principal paid on long-term debt	(140,654)	(127,373)
Interest paid on long-term debt	(42,354)	(49,107)
Purchase of capital assets	<u>(271,296)</u>	<u>(355,320)</u>
Net cash used in capital and related financing activities	<u>(429,473)</u>	<u>(503,814)</u>
Investing Activities		
Interest on investments	14,140	14,238
Purchase of investments	(1,410,000)	(2,100,000)
Proceeds from maturity of investments	<u>1,740,000</u>	<u>2,200,000</u>
Net cash provided by investing activities	<u>344,140</u>	<u>114,238</u>
Decrease in Cash	(70,571)	(375,404)
Cash, Beginning of Year	<u>387,178</u>	<u>762,582</u>
Cash, End of Year	<u>\$ 316,607</u>	<u>\$ 387,178</u>

Ringgold County Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of Net Operating Loss to Net Cash Used		
in Operating Activities		
Operating loss	\$ (1,428,197)	\$ (920,607)
Depreciation	340,378	323,865
Gain on disposition of property and equipment	3,065	(4,756)
Changes in operating assets and liabilities		
Patient accounts receivable, net	301,767	(102,671)
Supplies and prepaid expenses	24,086	1,058
Estimated amounts due from third-party payers	92,057	(42,057)
Accounts payable and accrued expenses	<u>19,212</u>	<u>88,717</u>
Net cash used in operating activities	\$ <u>(647,632)</u>	\$ <u>(656,451)</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Ringgold County Hospital (Hospital) is an acute care hospital located in Mount Ayr, Iowa. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county tax revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, such as county taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

County Taxes

Annually, during March, the Hospital's Board of Trustees adopts a budget for the next fiscal year and approves a tax levy based on the taxable valuation of all taxable property of Ringgold County on January 1 of the prior calendar year. After completion of a public hearing on the tax levy, taxes are received in installments the following September and March. Taxes become delinquent after March 31 of the following year. Revenue from county taxes is recognized in the year for which the taxes are levied.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

During the year ended June 30, 2005 and 2004, the Hospital received approximately 8% and 7%, respectively, of its financial support from county taxes. Such funds were used exclusively to support operations.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and any claims incurred but not yet reported.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	4 – 10 years

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a county public hospital, the Hospital is exempt from federal and state income taxes under the Internal Revenue Code and state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system based on clinical, diagnostic and other factors.

Approximately 63% and 62% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2005 and 2004, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and the State of Iowa Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Code of Iowa provides for additional assessments against depositories to ensure there will be no loss of public funds.

At June 30, 2005 and 2004, the Hospital had bank balances of \$1,024,535 and \$1,402,375, respectively, and carrying balances of \$886,607 and \$1,287,178, respectively, none of which were exposed to custodial credit risk.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities, certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, certain registered open-end management investment companies, certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2005 and 2004.

The carrying value of deposits are included in the balance sheets as follows:

	2005	2004
Cash	\$ 316,607	\$ 387,178
Noncurrent investments	<u>570,000</u>	<u>900,000</u>
	<u>\$ 886,607</u>	<u>\$ 1,287,178</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2005 and 2004, consisted of:

	2005	2004
Medicare	\$ 513,661	\$ 571,023
Medicaid	37,068	72,061
Other third-party payers	429,699	603,037
Patients	<u>482,330</u>	<u>603,732</u>
	1,462,758	1,849,853
Less allowance for uncollectible accounts	<u>338,101</u>	<u>423,429</u>
	<u>\$ 1,124,657</u>	<u>\$ 1,426,424</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2005 and 2004, were:

	Beginning Balance	2005			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 127,004	\$ —	\$ —	\$ —	\$ 127,004
Land improvements	197,734	106,891	—	—	304,625
Buildings and improvements	2,716,077	8,340	—	—	2,724,417
Fixed equipment	1,624,913	5,530	—	—	1,630,443
Major moveable equipment	<u>1,943,789</u>	<u>150,535</u>	<u>111,101</u>	<u>—</u>	<u>1,983,223</u>
	<u>6,609,517</u>	<u>271,296</u>	<u>111,101</u>	<u>—</u>	<u>6,769,712</u>
Less accumulated depreciation					
Land improvements	73,196	12,212	—	—	85,408
Buildings and leasehold improvements	1,193,211	99,089	—	—	1,292,300
Fixed equipment	726,512	148,047	—	—	874,559
Major moveable equipment	<u>1,359,076</u>	<u>81,030</u>	<u>108,036</u>	<u>—</u>	<u>1,332,070</u>
	<u>3,351,995</u>	<u>340,378</u>	<u>108,036</u>	<u>—</u>	<u>3,584,337</u>
Capital assets, net	\$ <u>3,257,522</u>	\$ <u>(69,082)</u>	\$ <u>3,065</u>	\$ <u>0</u>	\$ <u>3,185,375</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

	Beginning Balance	2004			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 127,004	\$ —	\$ —	\$ —	\$ 127,004
Land improvements	197,734	—	—	—	197,734
Buildings and improvements	2,693,373	22,704	—	—	2,716,077
Fixed equipment	1,531,799	40,193	7,889	60,810	1,624,913
Major moveable equipment	1,926,803	233,688	216,702	—	1,943,789
Construction in progress	<u>2,075</u>	<u>58,735</u>	<u>—</u>	<u>(60,810)</u>	<u>—</u>
	<u>6,478,788</u>	<u>355,320</u>	<u>224,591</u>	<u>0</u>	<u>6,609,517</u>
Less accumulated depreciation					
Land improvements	60,209	12,987	—	—	73,196
Buildings and leasehold improvements	1,088,049	105,162	—	—	1,193,211
Fixed equipment	653,001	79,980	6,469	—	726,512
Major moveable equipment	<u>1,456,218</u>	<u>125,736</u>	<u>222,878</u>	<u>—</u>	<u>1,359,076</u>
	<u>3,257,477</u>	<u>323,865</u>	<u>229,347</u>	<u>—</u>	<u>3,351,995</u>
Capital assets, net	\$ <u>3,221,311</u>	\$ <u>31,455</u>	\$ <u>(4,756)</u>	\$ <u>0</u>	\$ <u>3,257,522</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate stop-loss amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2005 and 2004 is summarized as follows:

	2005	2004
Balance, beginning of year	\$ 40,000	\$ 40,000
Current year claims incurred and changes in estimates for claims incurred in prior years	293,334	244,885
Claims and expenses paid	<u>(293,334)</u>	<u>(244,885)</u>
Balance, end of year	\$ <u>40,000</u>	\$ <u>40,000</u>

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2005 and 2004:

	2005				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 540,886	\$ —	\$ 87,853	\$ 453,033	\$ 94,283
Note payable	78,750	—	15,000	63,750	15,000
Lease purchase agreements	<u>273,422</u>	<u>—</u>	<u>37,801</u>	<u>235,621</u>	<u>40,272</u>
Total long-term debt	\$ <u>893,058</u>	\$ <u>0</u>	\$ <u>140,654</u>	\$ <u>752,404</u>	\$ <u>149,555</u>

	2004				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 617,774	\$ —	\$ 76,888	\$ 540,886	\$ 89,799
Note payable	93,750	—	15,000	78,750	15,000
Lease purchase agreements	<u>308,907</u>	<u>—</u>	<u>35,485</u>	<u>273,422</u>	<u>37,801</u>
Total long-term debt	\$ <u>1,020,431</u>	\$ <u>0</u>	\$ <u>127,373</u>	\$ <u>893,058</u>	\$ <u>142,600</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Revenue Capital Loan Notes

The revenue capital loan notes consist of Hospital Revenue Capital Loan Notes, Series 2000 (Notes), in the original amount of \$700,000 dated August 1, 1999, which bear interest at 5.25%. The Notes are payable in monthly installments of \$4,736 through August 2009. The Hospital is required to make monthly deposits to the debt service fund. The Notes are secured by the net revenues of the Hospital and a \$100,000 certificate of deposit.

The debt service requirements as of June 30, 2005, are as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2006	\$ 113,669	\$ 94,283	\$ 19,386
2007	113,669	97,137	16,532
2008	113,669	102,333	11,336
2009	113,669	107,865	5,804
2010	<u>52,320</u>	<u>51,415</u>	<u>905</u>
	\$ <u>506,996</u>	\$ <u>453,033</u>	\$ <u>53,963</u>

Note Payable

The note payable is due October 2009, with principal payable in quarterly installments of \$3,750. The note is noninterest bearing. The note is secured by a loan guaranty from Mercy Hospital Medical Center. The debt service requirements as of June 30, 2005, are as follows:

Year Ending June 30	Total to be Paid	Principal
2006	\$ 15,000	\$ 15,000
2007	15,000	15,000
2008	15,000	15,000
2009	15,000	15,000
2010	<u>3,750</u>	<u>3,750</u>
	\$ <u>63,750</u>	\$ <u>63,750</u>

Lease Purchase Obligations

The Hospital is obligated under lease purchase agreements for equipment due in monthly installments, including interest of 5.25% to 6.85%, through August 2010. The agreements are secured by equipment. The debt service requirements at June 30, 2005, are as follows:

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Year Ending June 30,	Total to be Paid	Principal	Interest
2006	\$ 54,338	\$ 40,272	\$ 14,066
2007	54,338	42,905	11,433
2008	54,338	45,714	8,624
2009	54,338	48,709	5,629
2010	41,582	38,891	2,691
2011 – 2015	<u>19,515</u>	<u>19,130</u>	<u>385</u>
	\$ <u>278,449</u>	\$ <u>235,621</u>	\$ <u>42,828</u>

Note 9: Operating Leases

The Hospital has a noncancellable operating lease for a computerized tomography (CT) scanner that expires in 2007. The lease requires contingent rental payments based on the number of CT scans performed each month with a maximum monthly rental of \$10,140.

Future minimum lease payments at June 30, 2005, were:

2006	\$ 121,680
2007	<u>81,120</u>
Future minimum lease payments	\$ <u>202,800</u>

Rental expense for all operating leases consisted of:

Minimum rentals	\$ 50,017
Contingent rentals	<u>129,705</u>
	\$ <u>179,722</u>

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 6.76% and 10.14%, respectively; and police employees, in which case the percentages are 5.95% and 8.92%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$225,850, \$218,959 and \$203,858, respectively, which equaled the required contributions for each year.

Note 11: Related Party Transactions

Because of the existence of common management, Ringgold County Hospital and Mercy Hospital Medical Center (Medical Center) are related parties. The Hospital contracts with the Medical Center to provide management services, including the provision of an administrator for daily operating decisions. Other activities involving the Medical Center include the purchase of social service, dietician and human resources services.

Payments to the Medical Center totaled \$178,919 and \$200,491 for the years ended June 30, 2005 and 2004, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the year ended June 30, 2005:

Ringgold County Hospital

Notes to Financial Statements

June 30, 2005 and 2004

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 664,915	\$ —	\$ 664,915	\$ 629,499	\$ 35,416
Other revenues/receipts	<u>7,485,495</u>	<u>(450)</u>	<u>7,485,045</u>	<u>9,144,293</u>	<u>(1,659,248)</u>
	8,150,410	(450)	8,149,960	9,773,792	(1,623,832)
Expenses/disbursements	<u>8,913,130</u>	<u>(68,507)</u>	<u>8,981,637</u>	<u>9,505,211</u>	<u>523,574</u>
	(762,720)	(68,957)	(831,677)	268,581	(1,100,258)
Balance, beginning of year	<u>4,491,789</u>	<u>(2,365,973)</u>	<u>2,125,816</u>	<u>2,282,223</u>	<u>(156,407)</u>
Balance, end of year	<u>\$ 3,729,069</u>	<u>\$ (2,434,930)</u>	<u>\$ 1,294,139</u>	<u>\$ 2,550,804</u>	<u>\$ (1,256,665)</u>

Note 13: Change in Accounting Principle

During 2005, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, by retroactively restating prior year's financial statements. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASBS No. 40 had no effect on the net assets and change in net assets in the prior or current year.

Supplementary Information

Ringgold County Hospital
Patient Accounts Receivable and
Allowance for Uncollectible Accounts
June 30, 2005 and 2004

Patient Accounts Receivable

	2005		2004	
	Amount	Percent	Amount	Percent
Age of Accounts				
0 – 30 days	\$ 1,123,547	55.1%	\$ 1,121,062	46.2%
31 - 60 days	246,496	12.1	322,722	13.3
61 - 90 days	140,945	6.9	181,011	7.5
91 - 120 days	95,887	4.7	107,009	4.4
Over 120 days	<u>430,883</u>	<u>21.2</u>	<u>693,049</u>	<u>28.6</u>
	<u>2,037,758</u>	<u>100.0%</u>	<u>2,424,853</u>	<u>100.0%</u>
Less				
Allowance for uncollectible accounts	338,101		423,429	
Allowance for contractual adjustments	<u>575,000</u>		<u>575,000</u>	
	<u>913,101</u>		<u>998,429</u>	
	<u>\$ 1,124,657</u>		<u>\$ 1,426,424</u>	

Allowance for Uncollectible Accounts

	2005	2004
Balance, beginning of year	\$ 423,429	\$ 330,000
Provision for uncollectible accounts	148,880	288,756
Accounts written off	<u>(234,208)</u>	<u>(195,327)</u>
Balance, end of year	<u>\$ 338,101</u>	<u>\$ 423,429</u>

Ringgold County Hospital

Supplies and Prepaid Expenses

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Supplies		
Medical supplies	\$ 53,906	\$ 58,581
Pharmacy	<u>70,208</u>	<u>79,518</u>
	<u>\$ 124,114</u>	<u>\$ 138,099</u>
 Prepaid Expenses		
Insurance	\$ 17,513	\$ 10,843
Other	<u>1,679</u>	<u>26,093</u>
	<u>\$ 19,192</u>	<u>\$ 36,936</u>

Ringgold County Hospital
Other Revenue
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Grant revenue	\$ 16,381	\$ 18,706
Meals sold to employees and guests	21,777	22,769
Contract laundry services	3,326	3,072
Gain (loss) on disposition of capital assets	(3,065)	4,755
Purchase discounts	11,019	22,924
Other	<u>31,894</u>	<u>27,701</u>
	\$ <u>81,332</u>	\$ <u>99,927</u>

Ringgold County Hospital
Net Patient Service Revenue
Years Ended June 30, 2005 and 2004

	2005		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 343,127	\$ —	\$ 343,127
Long-term care	<u>107,354</u>	<u>—</u>	<u>107,354</u>
	<u>450,481</u>	<u>—</u>	<u>450,481</u>
Other Nursing Services			
Operating room	101,336	640,973	742,309
Recovery room	11,655	97,820	109,475
Central services and supply	115,389	240,302	355,691
Intravenous therapy	90,930	100,861	191,791
Emergency services	<u>37,389</u>	<u>425,848</u>	<u>463,237</u>
	<u>356,699</u>	<u>1,505,804</u>	<u>1,862,503</u>
Other Professional Services			
Laboratory	285,053	1,687,555	1,972,608
Transfusion service	15,692	36,340	52,032
Electrocardiology	18,228	248,037	266,265
Radiology	132,709	1,079,340	1,212,049
Ultrasound	181,313	1,239,944	1,421,257
Pharmacy	547,145	557,714	1,104,859
Respiratory therapy	84,965	149,891	234,856
Physical therapy	95,596	260,114	355,710
Anesthesiology	9,283	40,166	49,449
Ambulance service	6,430	329,836	336,266
Dialysis	—	660,157	660,157
Emergency room physicians	—	233,637	233,637
Clinics	<u>—</u>	<u>1,671,593</u>	<u>1,671,593</u>
	<u>1,376,414</u>	<u>8,194,324</u>	<u>9,570,738</u>
Gross Patient Service Revenue	<u>\$ 2,183,594</u>	<u>\$ 9,700,128</u>	<u>11,883,722</u>
Less Allowances and Provision for Uncollectible Accounts			
Medicare and other contractual allowances			4,039,135
Medicaid contractual allowances			334,460
Provision for uncollectible accounts			<u>148,880</u>
			<u>4,522,475</u>
Net Patient Service Revenue			<u>\$ 7,361,247</u>

Inpatient	2004 Outpatient	Total
\$ 394,888	\$ —	\$ 394,888
<u>111,008</u>	<u>—</u>	<u>111,008</u>
<u>505,896</u>	<u>—</u>	<u>505,896</u>
114,495	611,826	726,321
12,383	110,739	123,122
158,824	303,266	462,090
37,439	159,910	197,349
<u>33,717</u>	<u>343,353</u>	<u>377,070</u>
<u>356,858</u>	<u>1,529,094</u>	<u>1,885,952</u>
354,874	1,517,994	1,872,868
18,620	14,713	33,333
27,342	289,883	317,225
152,064	1,006,457	1,158,521
173,677	1,139,976	1,313,653
681,300	534,794	1,216,094
219,133	184,587	403,720
62,669	253,369	316,038
10,551	43,057	53,608
2,794	308,879	311,673
—	662,411	662,411
—	186,185	186,185
<u>—</u>	<u>2,270,897</u>	<u>2,270,897</u>
<u>1,703,024</u>	<u>8,413,202</u>	<u>10,116,226</u>
\$ <u>2,565,778</u>	\$ <u>9,942,296</u>	<u>12,508,074</u>

3,824,444
 225,731
288,756
4,338,931

 \$ 8,169,143

Ringgold County Hospital
Expenses
Years Ended June 30, 2005 and 2004

	Salaries	2005 Supplies and Expense	Total
Nursing Services			
Nursing administration	\$ 120,929	\$ 34,554	\$ 155,483
Medical and surgical	601,421	68,433	669,854
Operating room	153,126	130,254	283,380
Recovery room	11,679	421	12,100
Central services and supply	16,648	30,362	47,010
Emergency services	<u>22,019</u>	<u>14,265</u>	<u>36,284</u>
	<u>925,822</u>	<u>278,289</u>	<u>1,204,111</u>
Other Professional Services			
Laboratory	206,088	325,898	531,986
Transfusion service	—	30,657	30,657
Electrocardiology	11,539	7,587	19,126
Radiology	127,917	369,325	497,242
Ultrasound	—	366,651	366,651
Pharmacy	108,193	328,597	436,790
Respiratory therapy	99,970	65,215	165,185
Physical therapy	124,477	43,823	168,300
Medical records	77,971	52,027	129,998
Ambulance service	176,970	50,892	227,862
Dialysis	172,724	219,790	392,514
Emergency room physicians	133,048	133,494	266,542
Clinics	<u>1,377,667</u>	<u>360,944</u>	<u>1,738,611</u>
	<u>2,616,564</u>	<u>2,354,900</u>	<u>4,971,464</u>
General Services			
Dietary	128,851	62,996	191,847
Plant operation and maintenance	83,246	275,176	358,422
Housekeeping	75,079	16,270	91,349
Laundry and linen	<u>19,962</u>	<u>7,957</u>	<u>27,919</u>
	<u>307,138</u>	<u>362,399</u>	<u>669,537</u>

Salaries	2004 Supplies and Expense	Total
\$ 108,622	\$ 12,270	\$ 120,892
597,040	81,732	678,772
148,046	171,846	319,892
15,283	789	16,072
15,855	42,375	58,230
<u>22,327</u>	<u>18,750</u>	<u>41,077</u>
<u>907,173</u>	<u>327,762</u>	<u>1,234,935</u>
201,087	303,151	504,238
—	27,436	27,436
14,602	13,696	28,298
111,969	394,576	506,545
—	358,265	358,265
99,445	314,885	414,330
90,498	73,956	164,454
136,226	55,708	191,934
63,685	82,351	146,036
141,498	33,102	174,600
170,061	215,817	385,878
137,730	125,867	263,597
<u>1,650,042</u>	<u>347,199</u>	<u>1,997,241</u>
<u>2,816,843</u>	<u>2,346,009</u>	<u>5,162,852</u>
121,312	63,811	185,123
68,400	260,149	328,549
84,806	13,671	98,477
<u>21,866</u>	<u>9,511</u>	<u>31,377</u>
<u>296,384</u>	<u>347,142</u>	<u>643,526</u>

Ringgold County Hospital
Expenses
Years Ended June 30, 2005 and 2004

	Salaries	2005 Supplies and Expense	Total
Administrative and Fiscal Services			
Administrative	\$ 311,028	\$ 558,997	\$ 870,025
Employee benefits	<u>—</u>	<u>815,261</u>	<u>815,261</u>
	<u>311,028</u>	<u>1,374,258</u>	<u>1,685,286</u>
Depreciation	<u>—</u>	<u>340,378</u>	<u>340,378</u>
	<u>\$ 4,160,552</u>	<u>\$ 4,710,224</u>	<u>\$ 8,870,776</u>

2004 Supplies and Expense		
Salaries		Total
\$ 293,248	\$ 739,261	\$ 1,032,509
<u>—</u>	<u>791,990</u>	<u>791,990</u>
<u>293,248</u>	<u>1,531,251</u>	<u>1,824,499</u>
<u>—</u>	<u>323,865</u>	<u>323,865</u>
\$ <u>4,313,648</u>	\$ <u>4,876,029</u>	\$ <u>9,189,677</u>

Ringgold County Hospital

Organizational Data

June 30, 2005

Type of Organization

County Public Hospital organized under Chapter 347 of the Code of Iowa, not subject to taxes on income or property.

Board of Trustees, Executive Committee

Vicki Sickels, Chairman, Mount Ayr, Iowa; term expires 2006

Mike Kemery, Vice Chairman, Clearfield, Iowa; term expires 2011

Randy Gregg, Secretary, Mount Ayr, Iowa; term expires 2008

Board of Trustees, Members

Fred Wilson, Clearfield, Iowa; term expires 2011

Cindy Allen, Mount Ayr, Iowa; term expires 2006

Bill Armstrong, Mount Ayr, Iowa; term expires 2008

Kathy Braby, Blockton, Iowa; term expires 2011

Administrator and Chief Executive Officer

Gordon W. Winkler, Mount Ayr, Iowa

Director of Finance

Teresa Roberts, Mount Ayr, Iowa



**Independent Accountants' Report on Internal
Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the financial statements of Ringgold County Hospital as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The

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417 334-5165 Fax 417 334-4823

Commerce Bank Building
100 S. Broadway Street
P.O. Box 1448
Pittsburg, KS 66762-1448
620 231-7380 Fax 620 231-1226

results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described below.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2005. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with these requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures during the year ended June 30, 2005, did not exceed budgeted amounts.

Questionable Expenditure

An expenditure of \$110 for Chamber of Commerce dues was noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented. This expenditure was coded to the Administration Department. According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. The Board of Trustees should consider and document the public purpose and propriety of this transaction or, if appropriate, request reimbursement.

No other questionable expenditures were noted.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement to employees is not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by the law; *i.e.*, bankers on the Board of Trustees.

Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

Prior to November 1, 2004, the Hospital filed the annual unclaimed property report with the state treasurer in accordance with Chapter 556.11.

Sale of Assets

No notice of hearing was posted or public hearing was held regarding the sale of personal property by the Hospital. The Hospital should post notice of and conduct a public hearing regarding a sale of personal property when required by Iowa law.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Publication of Bills Allowed and Salaries

Chapter 347.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish annually the schedule of salaries paid by category and published quarterly the schedule of bills allowed.

Publication of Notice

Chapter 11.14 of the Code of Iowa requires notice that the audit report has been filed with the state shall be forwarded immediately to each newspaper, radio station or television station located in the county which is under audit. The Hospital did file their report with the state, but did not publish the required notice.

Board of Trustees
Ringgold County Hospital

Economic Development

No transactions involving expenditure of Hospital money for economic development were noted.

* * *

This report is intended solely for the information of the Board of Trustees, management and the state of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 1, 2005

Ringgold County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2005

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
05-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Certain individuals perform or have the ability to perform duties in the cash disbursements/accounts payable, cash receipts/accounts receivable and payroll cycles that are incompatible from a control perspective.</p> <p>Context – In each of the accounting cycles, certain individuals have the ability to perform incompatible access, recording and monitoring functions.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the three accounting cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically review the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will reconsider the existing assignment of duties and determine whether the cost of further segregation exceeds expected benefits.</p>